Before Commissioners: Robert M. Pickett, Chairman
Kate Giard
Mark K. Johnson
Anthony A. Price
Janis W. Wilson

In the Matter of the Consideration of Adoption of Regulations to Implement Amendments to the Public Utilities Regulatory Policies Act of 1978 by the Energy Policy Act of 2005	R-06-5 ORDER NO. 7

ORDER DECLINING TO ADOPT FEDERAL NET METERING, FUEL DIVERSITY, AND FOSSIL FUEL GENERATION EFFICIENCY STANDARDS

BY THE COMMISSION:

Summary

We decline to adopt net metering, fuel diversity, and fossil fuel generation efficiency standards proposed by the Energy Policy Act of 2005 (EPAct).[1]

Background

PURPA[2] was enacted in response to our country's energy crisis, designed to reduce our country's dependence on foreign oil, promote alternative energy sources and energy efficiency, and diversify the electric power industry. PURPA section 111(d) originally stated six federal energy standards concerning utility load management and customer rate determination/design.[3] The 2005 EPAct amended PURPA section 111(d)

[1]Energy Policy Act of 2005, Pub. L. No. 109-58, 119 Stat. 594 (2005) amending the Public Utility Regulatory Policies Act of 1978 (PURPA), 16 U.S.C. § 2621 *et seq.*

[2]Public Utilities Regulatory Policies Act of 1978, Pub. L. No. 95-617, 92 Stat. 3117 (1978).

[3]*See* Sections 111(d)(1)-(6) (16 U.S.C. § 2621(d)(1)-(6)). The Energy Policy Act of 1992 (Pub. L. No. 102-486, 106 Stat. 2782 (1992)) amended PURPA section 111(d) to add four additional federal standards regarding energy efficiency and power generation. *See* Sections 111(d)(7)-(10) (16 U.S.C. § 2621(d)(7)-(10)).

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by adding five new federal standards (net metering, fuel diversity, fossil fuel generation efficiency, time-based (smart) metering, and interconnection) intended to encourage development of small and alternative energy sources and promote efficiency in the generation and distribution of electrical power.[4] The EPAct requires state regulatory authorities to consider adopting each of the five new standards.[5]

We opened this docket to seek comments on whether we should adopt any of the five new standards stated in the EPAct.[6] Due to staggered federal timelines for state consideration of these standards,[7] we bifurcated the proceeding into two tracks.[8] Track A focused on the federal smart metering and interconnection standards,[9] while Track B focuses on the federal net metering, fuel diversity, and fossil fuel generation efficiency standards.

[4]The full text of the provisions are in Sections 1251, 1252 and 1254 of the EPAct; *see also* PURPA Sections 111(d)(11)-(16) (16 U.S.C. § 2621(d)(11)-(16)).

[5]PURPA Sections 111(d)(14)(F); 112(b)(3)(A), (4)(A), (5)(A) (16 U.S.C. §§ 2621(d)(14)(F); 2622(b)(3)(A), (4)(A), (5)(A)), as amended by the EPAct, define the requirements placed upon state regulatory authorities regarding PURPA amendments.

[6]*See* Order R-06-5(1), dated August 29, 2006.

[7]The deadline for a final determination regarding adopting federal time-based metering and interconnection standards was August 8, 2007 (Sections 111(d)(14)(F); 112(b)(4)(B), (b)(5)(B) (16 U.S.C. §§ 2621(d)(14(F); 2622(b)(4)(B), (5)(B)), while the deadline for a final determination on adopting federal net metering, fuel diversity, and fossil fuel generation efficiency standards was August 8, 2008 (*see* Section 112(b)(3)(B) (16 U.S.C. §§ 2622(b)(3)(B)).

[8]*See* Order R-06-5(2), dated April 4, 2007.

[9]We completed Track A by declining to implement the smart metering and interconnection standards proposed by the EPAct, but agreeing to pursue an Alaska-specific interconnection standard in a separate proceeding. *See* Order R-06-5(4), dated August 8, 2007.

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We held three separate workshops for Track B issues[10] and received several filings as part of this workshop process.[11] Staff summarized the results of each workshop and provided recommendations regarding the three outstanding EPAct standards at our June 11, 2008, public meeting. We decided to invite comments on

[10]Order R-06-5(5), dated April 16, 2008, scheduled workshops on Track B issues. The net metering workshop convened on April 29, 2008, and attendees included representatives of Alaska Power Association (APA), Alaska Conservation Solutions, Chugach Electric Association, Inc. (Chugach), Clean Energy Consulting, the Department of Law's Regulatory Affairs and Public Advocacy section (RAPA), Golden Valley Electric Association, Inc. (GVEA), Homer Electric Association (HEA), Inside Passage Electric, Interstate Renewable Energy Council (IREC), Matanuska Electric Association, Inc. (MEA), MEA Ratepayers' Alliance, the Municipality of Anchorage d/b/a Municipal Light and Power Department (ML&P), the National Wildlife Federation (NWF), and U.S. Green Building Council. Appearing on their own behalf were Louie Flora, Representative Berta Gardner, Peter McKay, Mike O'Meara, Pete Schneidler, Representative Paul Seaton, and Monty Worthington. The fossil fuel efficiency workshop convened on May 15, 2008, and attendees included Peter McKay and representatives of Chugach, GVEA, the Haines Borough, HEA, MEA, ML&P, and RAPA. The fuel source diversification workshop convened on May 22, 2008, with Peter McKay and representatives of Chugach, GVEA, HEA, MEA, ML&P, NWF, and RAPA in attendance.

[11]A summary of the net metering workshop was filed on May 14, 2008, and additional filings regarding the net metering workshop were submitted by MEA, ML&P, and Representative Paul Seaton. A group of net metering advocates filed a proposed net metering rule on May 21, 2008. Janet O'Meara filed her support for this proposed net metering rule on July 14, 2008. Dan Klaes, Mayor of the City of Bettles, Alaska, filed in support of the net metering proposal on June 9, 2008, but did not support the proposed limit on total participation of one percent of the retail system peak. After the workshop we received statements in favor of net metering from the Alaska Center for the Environment, Alaska Conservation Alliance, Representative Les Gara, and Benjamin Park.

Economically regulated utilities filed information regarding current fuel sources before the fuel source diversity workshop and responded to questions at the workshop. GVEA, MEA, and ML&P collectively filed a summary of the fuel source diversity workshop, while individual workshop reports were filed by Chugach and Peter McKay.

Economically regulated utilities filed information regarding current fossil fuel efficiency before the fossil fuel efficiency workshop and responded to questions at the workshop. Summaries of the fossil fuel efficiency workshop were filed collectively by HEA, Chugach, ML&P, MEA, and GVEA, and individually by Peter McKay.

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tentative decisions to adopt the federal net metering and fuel diversity standards[12] and to decline to adopt the federal fossil fuel generation efficiency standard.[13]

We invited comment on our tentative decisions[14] and issued a public notice announcing the tentative decisions and comment deadlines.[15] We received comments from utilities,[16] consumers,[17] advocacy organizations,[18] and RAPA.

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[12]June 11, 2008, public meeting transcripts at 44-46, 59-60 (net metering); 80-85 (fuel source diversity). We stated our intent to open a regulations docket to develop net metering and interconnection requirements, and to refine the federal fuel diversity standard so cost efficiency could be considered when establishing requirements.

[13]*Id.* at 68-71.

[14]Order R-06-5(6), dated June 26, 2008.

[15]*Notice of Request for Comment Regarding Consideration of New Federal Standards Proposed to Amend the Public Utilities Regulatory Act*, dated June 26, 2008. Each state regulatory authority must consider each PURPA standard after public notice and hearing. PURPA Section 111(b) (16 U.S.C. §§ 2621(b)). We held workshops in this proceeding to facilitate a collaborative process and elicit the positions of interested parties. After receiving reports detailing the positions of workshop participants, we reached a tentative decision on each Track 2 federal standard. We issued a public notice to invite comment on our tentative decisions and provide an additional opportunity for commentors to comment on information filed in this proceeding.

[16]*See* APA July 28, 2008 comments (APA comments), Alaska Village Electric Cooperative (AVEC) July 21, 2008 comments (AVEC comments); Chugach July 28, 2008 comments (Chugach comments); GVEA August 1, 2008 comments (GVEA comments) and August 6, 2008 errata to comments; MEA July 28, 2008 comments (MEA comments); ML&P July 28, 2008 comments (ML&P comments); ML&P July 28, 2008 reply to the July 14, 2008 comments of Janet O'Meara. Circle Electric, Inc. filed comments on May 8, 2008, before the comment period commenced.

[17]Most consumer comments only addressed net metering. We received comments in support of net metering from Andy Baker of Clean Energy Solutions, Dan Bagley, Nathan Baily, Lee Bolling, Harvey Bowers, Gerald Brookman, Debra Burdick-Hinton, Robert Burns and Julie Nester, Garrett Burtner, Chris Clark, Joel Cooper, Michael Craig, Tom DeLong, Seth Downs, Alan Dennison, Elizabeth Dunn, Nina Faust, Keith and Tricia Friel, Dennis Gann, Charlie Gibson, Scott Hansen, Adam Hays, Dianne Holmes, Arlene Jansky, Stanley Kaneshiro, Christina Kreideman, Gregory Kuijper, Spencer Lawley, Kenneth Leaders, Scot Leaders, Devony Lehner, Mark Masteller, Scott McEwen, Bill McFarlane, Peter McKay, Mary Mears, Colleen Miller, John Mouw, Elizabeth Neumann, Vonda Nixon, Maryellen Oman, James Reese, Wade and Carol Roberts, Marilyn Scarborough, Scott Seaton, Erik Schoen, Cory Smith, Phil St. John, (continued . . .)

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We considered these comments at our August 6, 2008, public meeting, and decided against implementing any of the federal standards. We stated our intent to open regulation dockets to (1) address a state-specific net metering requirement in conjunction with interconnection standards for Alaska,[19] and (2) consider renewable energy portfolio standards for electric utilities. This order formalizes and further explains our decision.

Discussion

A state commission must consider and make specific determinations whether implementation of the federal PURPA standards in its state is appropriate to carry out the purposes of PURPA.[20] The purposes of PURPA are to encourage (1) conservation of energy supplied by electric utilities, (2) optimal efficiency of electric utility facilities and resources, and (3) equitable rates for electric consumers.[21] These purposes are independent of one another, and it is not necessary that all three purposes be achieved; we may find the purposes of the title are carried out if any of these purposes is achieved and the others are not negatively impacted.[22]

(. . . continued)
Donald Sutherland, Laura Telford, Mary Tougas, Michelle Wilber, Ron Wille, Paula Williams, Monty Worthington, and Brian Yannity.

[18]Most comments from advocacy groups also only addressed net metering, with comments in support of net metering received from the Alaska Conservation Alliance, Cook Inletkeeper, Homer Electric Association Members Forum, IREC, MEA Ratepayers Alliance, National Outdoor Leadership School, and the NWF.

[19]Upon rejecting the federal interconnection standard stated in the EPAct, we announced our intent to craft an interconnection policy suited to Alaska's needs. *See* Order R-06-5(4) at 6-7.

[20]Section 111(a) (16 U.S.C. § 2621(a)).

[21]PURPA Section 101 (16 U.S.C § 2611).

[22]*Joint Explanatory Statement of the Committee of Conference*, Conference Committee Report accompanying Public Law 95.617 (Conference Committee Report) (1978) at 69.

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After considering the federal standard, we have several available options. We may implement the federal standard, decline to implement the standard,[23] or adopt a different or modified standard.[24] We may also partially implement a federal standard or phase-in implementation when immediate full implementation would impose a hardship on ratepayers.[25] This order documents our conclusions that the net metering, fossil fuel generation efficiency, and fuel source diversity standards are not appropriate to carry out the purposes of PURPA in Alaska.

Net Metering

The federal net metering standard provides:[26]

> Each electric utility shall make available upon request net metering service to any electric consumer that the electric utility serves. For purposes of this paragraph, the term 'net metering service' means service to an electric consumer under which electric energy generated by that electric consumer from an eligible on-site generating facility and delivered to the local distribution facilities may be used to offset electric energy provided by the electric utility to the electric consumer during the applicable billing period.

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[23]A state regulatory authority that declines to implement any Section 111(d) standard shall state in writing the reasons for declining to adopt the standard, and make those reasons available to the public. PURPA Section 111(b)(1) (16 U.S.C. § 2621(b)(1)). Grounds for declining to adopt the federal standard include that the standard is contrary to state law or inappropriate to carry out the three purposes of PURPA. *See NRRI White Paper* at 3.

[24]PURPA Section 117(b) (16 U.S.C § 2627(b)). *See also Reference Manual and Procedures for Implementation of the "PURPA Standards" in the Energy Policy Act of 2005* (*PURPA Reference Manual*), Rose and Meeusen, Sponsored by American Public Power Associates, Edison Electric Institute, National Association of Regulatory Utility Commissioners, and National Rural Electric Cooperative Association (March 22, 2006) at 8; *A White Paper on the Energy Policy Act of 1992: An Overview For State Commissions of New PURPA Statutory Standards* (*NRRI White Paper*), Burns and Eifert, National Regulatory Research Institute (April 1993) at 2-3.

[25]*NRRI White Paper* at 3.

[26]PURPA Section 111(d)(11) (16 U.S.C. § 2621(d)(11)). *See also PURPA Reference Manual* at 8.

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Net Metering Comments

Net metering generated the most comments in this docket, with two net metering proposals submitted by commentors.[27] Net metering proponents contend a net metering requirement will lower utility bills[28] and encourage electric customers to install alternative energy generating equipment,[29] promote renewable energy sources[30] and diversification of energy sources,[31] promote economic development[32] and development of the renewable energy industry in Alaska,[33] reduce fossil fuel emissions[34] and dependency on fossil fuel generation,[35] reduce energy consumption[36]

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[27] *See* May 21, 2008 net metering proposal; Peter McKay July 28, 2008 comments (McKay comments).

[28] *See, e.g.,* Representative Seaton comments, dated June 6, 2008 (Representative Seaton comments) at 1; NWF comments at 2.

[29] *See, e.g.,* Representative Seaton comments at 1; Alan Dennison July 23, 2008 email comments; Erik Schoen July 16, 2008 email comments; Paula Williams July 10, 2008 email comments (Williams comments); Kenneth Leaders July 27, 2008 email comments; Marilyn Scarborough July 3, 2008 email comments; Scot Leaders July 27, 2008 email comments.

[30] *See, e.g.*, NWF August 5, 2008 comments (NWF comments) at 2; Cook Inletkeeper July 24, 2008 comments at 1; Bill McFarlane July 26, 2008 email comments; Cory Smith July 28, 2008 email comments; Williams comments.

[31] *See, e.g.*, Dan Bagley July 28, 2008 email comments; Chris Clark July 28, 2008 email comments; Williams comments.

[32] *See, e.g.*, Lee Bolling July 28, 2008 email comments.

[33] *See, e.g.*, NWF comments at 2.

[34] *See, e.g.,* Michael Craig July 14, 2008 email comments (Craig comments); Mary Mears July 29, 2008 email comments; NWF comments at 2; John Mouw July 28, 2008 comments; Michelle Wilber July 14, 2008 email comments (Wilber comments); Nathan Baily July 27, 2008 email comments (Baily comments).

[35] *See, e.g.,* Representative Seaton comments at 2; NWF comments at 2; Wilber comments.

[36] *See, e.g.,* Representative Seaton comments at 1; IREC July 28, 2008 comments at 1.

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and lessen transmission and distribution line losses,[37] and eliminate the need for utilities to install additional generation.[38] Some commentors opposing net metering argue that many of these alleged benefits of net metering are not supported by the record in this docket.[39]

Commentors opposing net metering contend that net metering results in rate cross-subsidization and violates cost-causer/cost-payer ratemaking principles.[40] Several net metering opponents characterize net metering as a subsidy program that should be funded through public sources rather than buried in electric rates through the RCA's rate-making process.[41] Some net metering opponents also reference existing tariff provisions requiring utilities to purchase excess generation at avoided cost rates.[42]

Net Metering Analysis

As previously noted, we must determine whether the implementation of the federal net metering standard is appropriate to carry out the purposes of PURPA in Alaska,[43] which are to encourage (1) conservation of energy supplied by electric utilities,

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[37] *See, e.g.,* Wilber comments.

[38] *See, e.g.*, Craig comments; Baily comments.

[39] MEA and ML&P dispute assertions that net metering will reduce carbon emissions, encourage development of renewable energy generation and technologies, and facilitate energy self-reliance. MEA comments at 6-7; ML&P comments at 6-8. ML&P also questions assertions regarding the amount of line loss reduction resulting from net metering. MEA reply comments at 2.

[40] *See, e.g.*, APA comments at 7-9; AVEC comments at 1; Chugach comments at 2-4; GVEA comments at 2-3; MEA comments at 8; ML&P comments at 2-3. These commentors contend that while customers who generate electricity will see a reduction in billings from the electric company, lost revenues attributable to these net metering customers must be recovered from customers who do not generate electricity.

[41] *See* Chugach comments at 3-5; APA comments at 13-15.

[42] *See, e.g.,* AVEC comments at 2; APA comments at 12-13;

[43] Section 111(a) (16 U.S.C. § 2621(a)).

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(2) optimal efficiency of electric utility facilities and resources, and (3) equitable rates for electric consumers.[44]

Conservation of energy

We received conflicting comments on whether adoption of the federal net metering standard will result in the conservation of energy supplied by electric utilities. Some net metering proponents contend that net metering will decrease the generation needs of utilities and consequently result in the conservation of energy supplied by electric utilities,[45] while APA contends that net metering merely shifts the generation source from the utility to the customer.[46]

The *PURPA Reference Manual* discusses the impact of net metering on the conservation of energy as follows:[47]

> Because net metering may encourage distributed generation, it is likely that net metering will permit utilities to produce less power. Some of the power that would otherwise have been produced by utilities will instead be produced by consumers. This is not to say that total energy consumption will decrease, only that less of the generation resources will come from the utility.

The *Conference Committee Report* accompanying PURPA indicates advancement of this PURPA purpose depends on whether adoption of the federal standard will encourage conservation of electricity by end-users.[48] While net metering may encourage self-generation by customers, there is no evidence in the record demonstrating that adopting the federal net metering standard will foster conservation of electricity by end-users. On the contrary, to the extent net metering lowers electricity cost to generating customers, it may encourage consumption by those customers.

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[44]PURPA Section 101 (16 U.S.C § 2611).

[45]*See, e.g.,* Representative Seaton comments at 1.

[46]*See* APA comments at 5-6.

[47]*PURPA Reference Manual* at 38.

[48]*Conference Committee Report* at 69.

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Optimal efficiency of electric utility facilities and resources

We received limited comments regarding whether adoption of the federal net metering standard will encourage optimal efficiency of electric utility facilities and resources. APA contends the unreliable and unpredictable nature of customer-generated electricity will preclude a utility from relying on customers' output for generation planning, and will not result in any increased efficiency in the use of electric facilities or resources.[49]

The *PURPA Reference Manual* indicates that the effect of net metering on PURPA efficiency goals depends on the type of generation used by the utility and net metering customers, and the interaction between the two, stating:[50]

> [T]hough a net metering standard may not have a direct impact on utility operations or resource allocation, by promoting the installation of customer-owned generation to replace some utility generation, the net metering standard could have a marginal impact on the utilization of the utility's generation resources. If highly efficient customer-owned generation operates at times to permit the utility to reduce usage of less efficient generation, it could have a positive impact. If, on the other hand, inefficient customer-owned generation replaces utility-owned generation with a much lower heat rate, the effect could be negative.

With no information in the record of this proceeding regarding the efficiency of customer-owned generation, the effect of net metering on the efficiency of electric utility facilities and resources in unclear. Consequently we do not find sufficient evidence in the record to conclude that net metering will advance the PURPA purpose of optimal efficiency of electric utility facilities and resources.

Equitable rates for electric consumers

The final PURPA purpose is to encourage equitable rates for electric customers. The most common objection to net metering is that it will result in non-generating customers subsidizing the activities and investments of customers who

[49]APA comments at 6.

[50]*PURPA Reference Manual* at 39.

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generate electricity. Several commentors contend that while customers who generate electricity may see a reduction in billings from their electric utilities, lost revenues attributable to these net metering customers must be recovered from customers who do not generate electricity.[51]

The *PURPA Reference Manual* notes that rate equity concerns are the primary analysis in deciding whether to adopt net metering standards, and describes the rate equity issue as follows:[52]

> Under certain circumstances, net metering can undermine the equity of retail rates. Because net metering policies provide for customer-generated kWhs to be netted on a one-for-one basis with utility-delivered kWhs, net metering policies require utilities to pay consumers the retail price for wholesale power. That means the utility is paying for services typically included in retail rates that the customer is not providing the utility, including distribution, transmission, utility operating and maintenance expenses (O&M), utility administrative and general expenses (A&G), and sometimes taxes and public benefit charges as well. These costs will generally be recovered from other consumers on the utility's system, leading to a cost shift from customer-generators to all other customers on the system.

Given the potential rate increase for non-generating customers, adopting the federal net metering standard will not further (and may negatively impact) the PURPA purposes of equitable rates for consumers. This rate inequity occurs under the federal net metering standard (where customers merely receive an offset for any self-generated electricity), and is exacerbated when a utility is required to purchase a customers excess generation as proposed by several commentors.

Further RCA Action on Net Metering

While we are committed to pursuing a net metering standard for Alaska, we believe the federal net metering standard is inappropriate for Alaska due to the confining and undefined nature of that standard. These limitations would preclude us

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[51] *See, e.g.*, APA comments at 7-9; AVEC comments at 1; Chugach comments at 2-4; GVEA comments at 2-3; MEA comments at 8; ML&P comments at 2-3.

[52] *PURPA Reference Manual* at 38.

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from implementing components of net metering advocated in this proceeding. For example, while some commentors advocate for a limit on net metering based on a utility's peak retail load,[53] a limitation appears to be precluded by the federal standard's requirement that net metering be provided to "any electric consumer that the electric utility serves."[54] Several commentors also advocate for a limit on generation sources eligible for net metering,[55] a restriction that is not stated in the federal net metering rule.

An example of how the undefined nature of the federal standard could frustrate the intent of net metering proponents is based on the issue of whether a utility will be required to purchase excess generation. Many commentors in this proceeding presume adoption of the federal net metering standard necessarily entails a requirement that generating customers receive the utility's retail rate for any generation that exceeds the customer's load requirement.[56] The federal net metering standard would not implement this requirement as it does not expressly require the utility to purchase excess generation, but instead defines net metering as a service where energy generated by an electric consumer "may be used to offset electric energy provided by the electric utility."[57] The federal standard also predetermines certain disputed net metering components, such as the offset rate for customer-generated power that is less than or equal to the customers total usage. The federal standard implies a requirement that consumer-produced energy be offset at the utility's retail rate,

[53] *See, e.g.*, McKay comments; Alaska Conservation Alliance comments; National Wildlife Federation comments.

[54] PURPA Section 111(d)(11) (16 U.S.C. § 2621(d)(11)).

[55] *See, e.g.*, Monty Worthington July 25, 2008 comments at 1; McKay comments; Cook Inletkeeper comments.

[56] *See, e.g.*, Monty Worthington July 25, 2008 comments ; IREC comments

[57] PURPA Section 111(d)(11) (16 U.S.C. § 2621(d)(11)).

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an approach opposed by utilities and not a component of net metering requirements adopted in several other states.[58]

Our consideration of a net metering requirement differing from the federal standard allows us to consider the above issues, and may result in a more comprehensive net metering standard. We find such an approach to be more desirable than adopting the federal standard. We will open a regulations docket that considers a net metering requirement, allowing us to fully assess the issues raised by commentors and consider more refined and comprehensive metering rules. Net metering is dependent upon the consumer-producer's ability to interconnect to the serving utility's facilities. We intend to combine consideration of net metering with the adoption of interconnection standards, allowing us to simultaneously consider these interrelated items.

Fuel Diversity

The federal fuel diversity standard provides:[59]

> Each electric utility shall develop a plan to minimize dependence on 1 fuel source and to ensure that the electric energy it sells to consumers is generated using a diverse range of fuels and technologies.

Fuel Diversity Comments

Scott McEwen, MEA Ratepayers Alliance, NWF, and Monty Worthington support a fuel diversity standard.[60] Peter McKay supports a requirement that utilities provide a plan to minimize dependence on one fuel source, and supports a periodic reporting requirement for all regulated utilities that includes fossil fuel generation

[58]Many commentors cite net metering requirements in other states to support a net metering requirement in Alaska. Many of these states do not provide an offset based on the utility's retail rate. See, e.g., Missouri, New Mexico, North Dakota, Ohio, Oregon, Rhode Island, Texas, and Utah.

[59]PURPA Sections 111(d)(11)-(16) (16 U.S.C. § 2621(d)(12)).

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efficiency metrics.[61] APA believes adoption of the federal fuel source diversity standard is unnecessary since utilities already seek cost-effective fuel diversity where possible.[62] ML&P opposes imposition of the federal fuel diversity standard, contending that any rule of general applicability would not improve the quality of utility decision-making with regard to fuel diversity.[63] MEA states the cost of developing an Integrated Resource Plan (IRP) to comply with the fuel diversity standards may be overly burdensome for smaller utilities, and recommends we decline to impose the federal fuel diversity standard in favor of an approach where we adopt standards for fuel diversity studies that must be included in any IRP-type planning document prepared pursuant to normal business requirements.[64] RAPA states the federal fossil fuel generation and fuel diversity standards require utilities to address fuel efficiency and fuel source diversity as part of their long-term planning process, and contends the specifics of how to incorporate these considerations into the planning process is an appropriate topic for another docket.[65]

Fuel Diversity Analysis

We do not believe implementing the federal fuel diversity standard is appropriate in Alaska to carry out the PURPA purposes of encouraging (1) conservation of energy supplied by electric utilities, (2) optimal efficiency of electric utility facilities and resources, and (3) equitable rates for electric consumers.

(. . . continued)

[60]*See* Scott McEwen email comments; MEA Ratepayers comments at 2; Worthington comments;

[61]McKay comments at 3.

[62]APA comments at 20.

[63]ML&P comments at 9-10.

[64]MEA comments at 10.

[65]RAPA comments at 8-9.

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This standard is most closely tied to principles (2) and (3) optimizing efficiency and encouraging equitable rates.[66] A diverse generation portfolio may allow utilities to optimize the efficiency of their facilities and resources, and may provide some rate insulation by allowing the utility to choose between different generation sources depending on market conditions. However, this would appear to be a best-case scenario, and there is no evidence in the record demonstrating that these benefits would result from adopting the federal fuel diversity standard which merely requires the developments of plans for fuel diversity. Alternative fuels may be more expensive than the present fuel, and the cost of conversion could result in further rate increases.

Further RCA Action on Fuel Diversity

We decline to adopt the federal fuel diversity standard. We will consider whether to open a regulations docket to determine whether the existing integrated resource plans of electric utilities appropriately include new renewable energy projects and to what extent. At a future date we will consider whether we should adopt renewable energy portfolio standards for electric utilities.

Fossil Fuel Generation Efficiency

The federal fossil fuel generation efficiency standard states:

> Each electric utility shall develop and implement a 10-year plan to increase the efficiency of its fossil fuel generation.

Fossil Fuel Generation Efficiency Comments

Garrett Burtner, Scott McEwen, and MEA Ratepayers Alliance filed statements in support of a fuel diversity standard.[67] NWF supports a fossil fuel generation efficiency standard as a means of providing transparency by allowing the public to understand and evaluate utilities' commitment regarding fossil fuel generation

[66]PURPA Reference Manual at 47.

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efficiency.[68] Both Peter McKay and RAPA support incorporating fossil fuel efficiency improvement standards in the same periodic planning requirements drafted for fuel source diversity, although RAPA questioned whether the 10-year planning timeframe in the federal standard was appropriate for Alaskan utilities.[69] APA does not believe the record in this proceeding demonstrates a significant benefit would result from implementing the federal fossil fuel efficiency standard.[70]

Fossil Fuel Generation Efficiency Analysis

We do not believe implementing the federal fossil fuel generation efficiency standard is appropriate in Alaska to carry out the PURPA purposes of encouraging (1) conservation of energy supplied by electric utilities, (2) optimal efficiency of electric utility facilities and resources, and (3) equitable rates for electric consumers. There is an insufficient record in this proceeding to demonstrate a significant advantage to be gained by implementing the fossil fuel efficiency standard. There is evidence on the record that the larger economically regulated utilities to which the EPAct language applies are already making a reasonable effort to maximize fossil fuel efficiency by replacing aging generation and appropriately dispatching generation.[71]

(. . . continued)

[67]*See* Garrett Burtner email comments; Scott McEwen email comments; MEA Ratepayers comments at 2;

[68]NWF comments at 3-4.

[69]*See* McKay comments at 2, 3; RAPA comments at 10-11.

[70]APA comments at 19-20.

[71]*See, e.g.*, ML&P's Notice of Intent and Fuel Efficiency Workshop Questions, filed May 1, 2008 at 3; GVEA's Answer to Fuel Efficiency Pre-Workshop Questions, filed May 8, 2008 at 2 and 3.

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ORDER

THE COMMISSION FURTHER ORDERS that we decline to adopt the net metering, fuel diversity, and fossil fuel generation efficiency standards proposed by the Energy Policy Act or 2005.

DATED AND EFFECTIVE at Anchorage, Alaska, this 27th day of August, 2008.

BY DIRECTION OF THE COMMISSION
(Kate Giard, dissenting in part, to the decision not to adopt federal net metering standards.)

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